Tax Tips Going Into the New Year

With the year coming to a close and 2015 on the horizon, I'm sure many of you are wondering about tax tips to close out this year and start the next. Well you can get ahead of tax season by having a discussion with your CPA now to maximize your deductions and get your tax strategy in order. While the tips below may be helpful for some businesses, it's important to remember that no two businesses are alike and we recommend discussing with your CPA and figuring out which tax strategies may apply to you.

The first thing to keep in mind is that it is difficult to provide sound tax advice when the underlying IRC is in flux and uncertain. A one year extender (HR 5771) was just passed, meaning extended through 12/31/14, for the many tax benefits that expired beginning in 2014. However, the Senate is expected to pass the legislation as well, but this will most likely happen in 2015. Unfortunately the tax filing deadlines remain the same, but the last-minute retroactive tax law changes then delays the IRS in releasing final tax forms and instructions.

What this means
This means that tax preparation software companies are delayed in releasing their final software updates, which in turn, delays tax preparers from completing client's tax returns. An increase in tax returns going on extension will most likely be the result.
Click here if you're interested in following HR 5771

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1. Although the business property expensing option is greatly reduced in 2014, don't neglect to make expenditures that qualify for this option. For tax years beginning in 2014, the expensing limit is $25,000, and the investment-based reduction in the dollar limitation starts to take effect when property placed in service in the tax year exceeds $200,000.

Extended only through 12/31/14 - Sec 179 should be back to the $500,000 expense limit and the 50% bonus depreciation should also return. Sec 179 can be taken on new or used qualifying property; bonus depreciation can only be taken on new qualifying property (meaning, first owner of property). Also keep in mind that the property has to be purchased and placed into service on or before 12/31/14.

2. Businesses may be able to take advantage of the "de minimis safe harbor election"--the book-tax conformity election--to expense the costs of inexpensive assets and materials and supplies, assuming the costs don't have to be capitalized under the Code Sec. 263A uniform capitalization (UNICAP) rules. To qualify for the election, the cost of a unit-of-property can't exceed $5,000 if the taxpayer has an applicable financial statement(AFS). If there's no AFS, the cost of a unit of property can't exceed $500. Where the UNICAP rules aren't an issue, purchase such qualifying items before the end of 2014.

3. A corporation (other than a “large” corporation) that anticipates a small net operating loss for 2014 may find it worthwhile to accelerate just enough of its 2015 income to create a small amount of net income for 2014. This will permit the corporation to base its 2015 estimated tax installments on the relatively small amount of income shown on its 2014 return, rather than having to pay estimated taxes based on 100% of its much larger 2015 taxable income.

4. A corporation should consider accelerating income from 2015 to 2014 where doing so will prevent the corporation from moving into a higher bracket next year. Conversely, it should consider deferring income until 2015 where doing so will prevent the corporation from moving into a higher bracket this year.

C-Corps are taxed at 15% federal on the first $50,000 of taxable income; 25% federal on next $25,000. In general, CA taxes C-Corps at a flat 8.84%.? Please make sure to keep this in mind when trying to maximize the utilization of tax brackets in an overall tax strategy.

5. Curious about year-end bonuses? In general, owner compensation is treated on the cash basis even if the company is on the accrual basis. So, for owner compensation/bonuses to be deductible in 2014 make sure that they are actually paid before 12/31/14. Employee (non-owner) bonuses can be accrued at year-end but then must be paid within 2.5 months of year-end to be deductible for 2014.

6. In general, retirement contributions can be accrued at 12/31/14 but do need to be funded until the due date of the return (including extensions). So you get the deduction in 2014 that does not need to be funded until many months later (September 2015, if on extension). This is a great tax benefit that is often overlooked.

As the old adage goes, "It's better to get started sooner than later," and this is the same for your tax strategy. While you may not be able to take advantage of the tips in this post, I do suggest bringing these topics to the attention of your CPA. Having a discussion of the different options and deductions that are available to you will help you gain a better understanding of effective tax strategies, and your CPA will know what will work best for your business. If you don't have a CPA, feel free to send us a message and we can recommend one to you. And remember, the only bad questions are the ones not asked.